December 2012

Dear Clients and Friends:

We all know when we sell an investment for a profit, we have to pay income tax unless the asset is held in an IRA or other type of tax-qualified account. The tax is figured on your net selling price (the money you rake in after any expenses of sale), reduced by your cost basis, i.e. the amount you invested. It makes sense you don't pay tax on the amount that represents a return of your own money, but it's figuring the cost basis that can be tricky. I would like to know how many hours my assistant Tara has put in, calculating this amount for our clients.

What happens if you own an investment that pays a monthly dividend, but instead of taking the income you decide to let it ride by buying more shares of that investment each month? Even though this is done automatically and you never receive a dividend payment, the reinvested dividends are reported to you as income on IRS Form 1099. From a tax standpoint, it's the same result as if you had the dividends paid to you in cash, then turned around and bought more shares of the investment. Because you've paid tax on the reinvested dividends, it's only fair your cost basis will increase, representing the running tally of how much you've invested. The larger your cost basis, the less income tax you'll pay when you sell the asset.

Imagine all the record keeping if you're going to stay on top of your cost basis. Many people don't have statements going back far enough to calculate this amount, and we often have to make educated guesses when we weren't the selling broker. Taxpayers tend to guess in their own favor, so a new federal law requires brokers, banks, mutual funds and other firms to submit accurate cost basis information to investors and the IRS. This includes both the adjusted cost basis in each asset and whether any gain or loss on the sale is short-term or long-term.

Crown Capital Securities, L.P. and other brokerage firms will now provide cost basis information for stock transactions posted on or after January 1, 2011, for mutual funds and dividend reinvestment plans (DRP's) purchased on or after January 1, 2012, and for other types of securities, such as private placements, acquired on or after January 1, 2013.

Regards,

Chuck

Charles M. Shackelford